

Message Text

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PAGE 01 MEXICO 00943 181823Z
ACTION ARA-14

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SUBJECT: TAX CHANGES

1. SUMMARY. TAX CHANGES INTRODUCED AS PART OF REVENUE LAW AND IN COMPLEMENTARY LEGISLATION ARE MINOR AND APPEAR GEARED TO DEAL WITH POLITICAL PROBLEMS; IMPACT ON REVENUE WILL NOT BE GREAT. FEDERAL DISTRICT IS IMPOSING A 15 PERCENT SURCHARGE THAT IS VERY UNPOPULAR. END SUMMARY.

2. AT THE TIME THE EXPENDITURE BUDGET IS PRESENTED TO CONGRESS, A REVENUE BUDGET IS ALSO PRESENTED. AT ABOUT THE SAME TIME, VARIOUS TAX REFORM MEASURES ARE TRADITIONALLY SENT TO CONGRESS. THE LACK OF SIGNIFICANT REFORMS WAS DISAPPOINTING TO SOME OBSERVERS. APPARENTLY A VALUE-ADDED TAX TO REPLACE THE GROSS RECEIPTS TAX, WHICH HAS A CASCADE EFFECT, WAS UNDER SERIOUS CONSIDERATION, BUT REJECTED OR POSSIBLY DELAYED BECAUSE OF BUSINESS OPPOSITION. THE CHANGES ARE SUMMARIZED BELOW.

3. THE 10 PERCENT INVESTMENT TAX CREDIT WAS TRANSFERRED FROM THE INCOME TAX CODE TO THE ANNUAL REVENUE LAW. THE PURPOSE OF THIS WAS TO ENCOURAGE INVESTMENT THIS YEAR ON
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PAGE 02 MEXICO 00943 181823Z

THE GROUNDS THAT THIS TAX WILL BE TEMPORARY RATHER THAN PERMANENT. THIS MESSAGE HAS NOT BEEN DIFFUSED AS WELL AS MIGHT BE EXPECTED.

4. THE 15 PERCENT GROSS RECEIPTS TAX ON MEALS AND DRINKS SERVED IN RESTAURANTS SERVING FOREIGN WINES AND SPIRITS WAS LOWERED TO 7 PERCENT. THE 15 PERCENT RATE CONTINUES TO

APPLY TO BARS AND CABARETS. FOREIGN TOURISTS WILL NOW HAVE TO PAY THESE RATES WHEREAS THEY HAD PREVIOUSLY BEEN EXEMPTED FROM THE 15 PERCENT TAX. THIS CHANGE REFLECTS POLITICAL PRESSURES. THE HOTEL AND RESTAURANT ASSOCIATION AND THE EMPLOYEE UNIONS HAD CONSISTENTLY OPPOSED THIS TAX, INTRODUCED IN LATE 1974. MEXICAN RESIDENTS DISLIKED THE DISCRIMINATION IN FAVOR OF FOREIGN TOURISTS, WHICH HAD BEEN INTRODUCED IN EARLY 1975.

5. THE 30 PERCENT GROSS RECEIPTS TAX ON JEWELRY SALES WAS DROPPED TO 15 PERCENT, AGAIN IN RESPONSE TO COMPLAINTS FROM JEWELERS, WHO STAGED A ONE DAY STRIKE AGAINST THIS TAX IN LATE 1977.

6. THE BASE FOR THE GROSS RECEIPTS TAX ON SALES OF NEW CARS IS BEING ALTERED. RATHER THAN FIXED ON OFFICIAL PRICES, WHICH NO LONGER EXIST, THE BASIS WILL BE A FACTOR DETERMINED BY THE MOTOR DISPLACEMENT AND WEIGHT OF THE CAR.

7. THE TAXES ON SALES OF BEER AND ALCOHOLIC BEVERAGES WERE INCREASED SLIGHTLY AND WILL BE CHANGED GRADUALLY FROM A FIXED TO AN AD VALOREM TAX.

8. THE INCOME TAX RATES ON WAGES AND SALARIES UP TO ROUGHLY \$450 A MONTH HAVE BEEN REDUCED SLIGHTLY. THE TAX RATES ON HIGHER INCOMES REMAIN THE SAME, AND HAVEN'T BEEN LIMITED OFFICIAL USE

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PAGE 03 MEXICO 00943 181823Z

CHANGED FOR SOME TIME; THEREFORE, REVENUE FROM THE INCOME TAX ON INDIVIDUALS SHOULD INCREASE FASTER THAN INFLATION AS MORE TAXPAYERS ARE PUSHED INTO HIGHER RATES.

9. THE MINING TAX AND INCENTIVE LAW WAS MODIFIED. THE NUMBER OF TAX RATES ON PRODUCTION WAS REDUCED FROM FORTY TO THREE: 4, 7 AND 9 PERCENT. REFUND OF IMPORT TAXES ON MACHINERY IS ALSO BEING INTRODUCED.

10. IN A SEPARATE MOVE, THE FEDERAL DISTRICT GOVERNMENT HAS IMPOSED A 15 PERCENT SURCHARGE ON ALL TAXES AND FEES ESTABLISHED IN THE DISTRICT REVENUE LAW. THE RIGHT TO LEVY SUCH A SURCHARGE HAS BEEN ON THE BOOKS FOR SOME TIME WITHOUT HAVING BEEN INVOKED. THE IMPOSITION OF THE SURCHARGE HAS RESULTED IN HEAVY CRITICISM OF THE DISTRICT GOVERNMENT. LUCEY

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